



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 9/10/2001

GAIN Report #MX1161

Mexico

Sugar

Mexico Expropriated 27 Sugar Mills

2001

Approved by:

William L. Brant

U.S. Embassy Mexico

Prepared by:

Dulce Flores

Report Highlights:

The Mexican Government announced on September 3, 2001, the expropriation of 27 sugar mills to avoid any reduction in sugar production. This is seen as the first step to organizing and restructuring the national sugar sector.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Mexico [MX1], MX

BACKGROUND

The sugar mills that were privatized at the end of the 1980's were bought with government loans that were never paid in full. As of last year, the sugar industry owed the Government almost US\$2.500 billion. Including close to US\$ 70 million to the Medical Social Insurance (IMSS), US\$9.5 million to the unions, and US\$ 70 million to the Housing Institution (INFONAVIT).

One of the largest sugar industry groups expropriated, Consorcio Azucarero Escorpion (CAZE), has been trying to sell its nine sugar mills since the beginning of 2000. The group had seen its debt grow to more than US\$800 million in the past few years and despite its efforts for restructuring the debt, FINASA, the Mexican Sugar Financing Institution, had given the CAZE group until October 2000 to locate an interested buyer. Due to its financial problems, CAZE could not obtain credit and did not have cash flow for maintenance or to pay the workers. These problems were not unique to CAZE, in fact several sugar mills have been through serious financial problems since the privatization of the sugar industry over the period 1988-1992. The CAZE group indicates that since 1998 they lost approximately US\$500 million because of the large sugar surplus that had to be exported at low world prices.

The Mexican government, through the Commission of Expenditure and Finance, authorized the liquidation of FINASA in September, 2000. The past administration decided to proceed before the new administration took power on December 1, 2000. FINASA functioned as a credit bank since 1953 for the sugar industry and afterwards (1985) as a government development bank. FINASA, however, had stop working as a credit bank for the last two or three years expecting the liquidation of the institution. Therefore, FINASA was not providing any credits for the last two or three years, but rather only collecting and restructuring client debt.

THE ANNOUNCEMENT

On September 3, 2001 the Government of Mexico announced in the Mexican Federal Register (Diario Oficial) it was expropriating 27 failing sugar mills. The action came upon the heels of several weeks of sugarcane producers protesting non-payment of sugar mills for this year's harvest. All of the expropriate sugar mills represent about 50 percent of sugar production in Mexico.

The Secretariat of Treasury indicated that the expropriation and the maintenance of the mills will cost the government between 1 billion pesos (US\$109 million) and 3 billion pesos (US\$327 million) of which the Government believes it will recover 90 to 95 percent. The Secretariat of Treasury indicated that the mills will be sold in 18 months either to local or foreign buyers, or a combination of the two.

The decision expropriating the failing sugar mills was largely made because the sugar agroindustry is an activity of great social importance because of the number of jobs it supports. It also indicates that the owners of the expropriated mills drove their companies into financial ruin, taking on large debts and risking the livelihood of sugarcane farmers. It was also felt that there was a high probability that certain mills would not be able to process the next crop because

of their failing financial situation. Furthermore, cane workers had stated they would not provide cane to any mills that were in debt to them.

The Federal Government, mainly the Secretariat of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA), the Secretariat of Treasury (SHCP), the Secretariat of Economy (SE) and Contraloria (OMB equivalent), will be in charge of developing the expropriation process. A new state-run company will be created in the next three months to run the mills for the upcoming season and until they are resold.

The government will take total control of nine sugar mills from Grupo Azucarero Escorpion (CAZE) that has a debt of US\$878 million, six mills from Grupo Santos with a debt of US\$200 million, six mills of Grupo Azucarero Mexico (GAM) that has a debt of US\$30 million, four mills from Grupo Machado with a debt of US\$22 million and two sugar mills that were already under government liquidation process. The Government will therefore control the shares, the mills, all machinery and equipment, land and buildings, rights, patents and brands, warehouses, laboratories, repair shops, electrical plants, water infrastructure, transportation equipment, housing for workers, sugar warehouses and the sugar contained in them, as well as all other properties of the mills expropriated.

The government is considering compensation for the owners of the mills. SHCP indicated, however, that in several cases the debts are well over the value of current assets, so some mill owners will have to give additional guarantees to the government. The announcement indicates the rights of the mill workers will be respected according to Mexican labor law.

REACTIONS

The Coordinating Council of Business Companies, did not agree with this measure and raised their concerns because of possible disregard for the rights of property owners. They trust this measure is of extraordinary character and temporary. Business Chambers, CONCAMIN and CANACINTRA, indicated that this was a good opportunity to rearrange the mills and make them more productive. Farmer unions were also in agreement with the measure because it guarantees pending payments to farmers. The President of the Chamber for the Sugar and Alcohol Industries, indicated that the measure was extreme, but at the same time it shows the government wants to resolve the sugar problem. The President of the Chamber trusts that this measure will lead to a structural reform of the entire sugar sector.

Federal Members of the House (Diputados) are requesting the government to conduct an in depth investigation on this issue, because there were mills that received large subsidies to export sugar, but did not comply with their obligations. They want to make sure the government is not going to absorb or cancel these mills' debts.

The owners have said they will comply with the expropriation announcement, although at least one group (GAM) said publicly it had not ruled out legal challenges. The owners of these groups have been the subjects of many media exposes accusing them of corrupt business dealings. The Finance Secretary, said at a September 3, 2001 press conference, that one of the motivating factors in the expropriation was the accusation against CAZE group that it had obtained export

subsidies under false pretenses. The decree announcing the expropriation says that the government is seeking to ensure that "good and honest administration be the common denominator in the nation's sugar industry, eliminating the unlawful practices of a group of persons dedicated to this industry, who have affected it profoundly."

The PRI Chairman of Congress's Finance Committee, Jorge Chavez said: "The country is no longer interested in socializing losses and privatizing profits: what happened to the mills which were sold to businessmen who have not even paid for some mills, is a bad signal of what the private sector is capable of doing in Mexico, and moreover this will hurt taxpayers." (Comment: What a difference a change of government makes. The PRI sold these mills to PRI-connected businessmen in the first place.) The PAN Senator from Nuevo Leon, Alberto Madero, characterizes the expropriation as a "very negative measure." However, while there is concern in Congress about who in the end is going to end up paying for the sugar industry's debts, we do not expect Congress to go beyond verbal criticism.

COMMENTS

The government has made it clear that the intention of the expropriation is to have the mills ready for the next harvest to avoid any reduction in sugar production. In 18 months, which is a sugar production cycle, mills will be ready to be sold. However, it is still not clear, how the state-run sugar company will be organized, or how the government will comply with the promised compensation if the debts are larger than what mills are worth. The other sugar mill companies are confident that the government will restructure the national sugar sector, make it more competitive, and prevent the yearly crisis of delayed payments to sugarcane growers. As to sugar production concerns, the industry is confident that sugar production for the next cycle 2001/02 will be a good one, with a sugar surplus similar to this past year, due to excellent weather conditions. Closure of any mills is not being considered because it is not politically or materially feasible. There is a need to ensure sugarcane will be processed by a nearby mill or a program to turn the fields into another productive agricultural product which is not an easy task.

LIST OF SUGAR MILLS EXPROPRIATED BY THE FEDERAL GOVERNMENT		
SUGAR MILLS	LOCATION	SUGAR Production (MT)
		2000/01
CONSORCIO AZUCARERO ESCORPION (CAZE)		
Atencingo	Puebla	154,403
Casasano, La Abeja	Morelos	44,731
El Modelo	Veracruz	120,255
El Potrero	Veracruz	142,987
Emiliano Zapata	Morelos	89,178
La Providencia	Veracruz	58,650
Plan de San Luis	San Luis Potosi	90,617
San Cristobal	Veracruz	272,366
San Miguelito	Veracruz	55,660
GRUPO AZUCARERO		
MEXICO (GAM)		
Benito Juarez	Tabasco	82,951
Jose Maria Martinez	Jalisco	177,685
Lazaro Cardenas	Michoacan	35,319
San Fco., El Naranjal	Veracruz	49,081
Industrial Azucarera San Pedro	Veracruz	88,797
El Dorado	Sinaloa	53,686
GRUPO MACHADO		
Central Progreso	Veracruz	57,829
Jose Maria Morelos	Jalisco	52,187
P. Machado (La Margarita)	Oaxaca	104,904
Zapoapita	Veracruz	96,126
GRUPO SANTOS		
Alianza Popular	San Luis Potosi	121,684
Plan de Ayala	San Luis Potosi	98,374
Bella Vista	Jalisco	56,933
Pedernales	Michoacan	36,262
Cuatotolapam	Veracruz	35,152

LIST OF SUGAR MILLS EXPROPRIATED BY THE FEDERAL GOVERNMENT		
SUGAR MILLS	LOCATION	SUGAR Production (MT)
San Gabriel	Veracruz	46,169
FIDELIQ		
Santa Rosalia	Tabasco	22,294
La Joya	Campeche	54,599
	TOTAL	2,298,879
Source: Comite de la Agroindustria Azucarera		